

Political and Economic

Conditions in Europe

(By Frank A. Vanderlip, in Review of Reviews.)

I went to Europe on the Lapland, sailing at the end of January. That ship was loaded with American manufacturers and representatives of American manufacturers, who were going over to sell goods, who felt that the war had probably helped European industry that they were going to have to face sharper conditions of competition than they had ever known. These men had no more conception of the Europe they were going to than I had.

You believe I may have something to tell about the most remarkable situation the world has ever seen. I believe I have, and I am going to tell you straight. I am going to tell you some of the things I have seen, some of the conclusions that I have reached, and I think you will be shocked. I was shocked when I learned, as I did with in twenty-four hours after I got on the other side, that most of my preconceived notions of what had happened to Europe should be thrown into the waste basket and that I should have to start over again to find out what had happened to Europe.

Now it is fair for you to know something of what I have done in Europe, where I have been, whom I have seen, before I begin to give you some of my conclusions.

I was in Europe from the first of February to the ninth of May. I spent some time in England first; then I went to France, to Switzerland, to Italy, to Spain, back to Paris again; then to Belgium and Holland, and back to London. It is a fair statement to say that I saw the leading men in those countries. I met every finance minister; I met many of the Prime Ministers. I met the leading financiers and bankers, great employers of labor, labor leaders. And what I have to tell you is not just an opinion of my own snatched out of the blue sky. It is a reflection, perhaps a composite, of the opinions of the first minds in Europe. If it were not, I would not dare stand before you and tell you some of the things that I am going to tell you.

I believe it would be possible, too, for one to take exactly the trip that I took, to see the cities that I saw, and still return to this country with different conclusions than I have of Europe.

America's Interest

I want to say right at the beginning that however black a background I paint—and it will be dark—I would not paint it, I would not tell the story, except that I believe America must know it, must comprehend it, that we must get it into our hearts and minds, because we must act. And if we do act, we can save Europe from a catastrophe, a catastrophe that will involve us. That is why I feel moved to tell such an assemblage as this something of the conditions that I saw over there, something of some of the consequences that may flow from those conditions. I believe that it is possible that there may be let loose in Europe forces that will be more terrible destructive than have been the forces of the Great War. I believe we can probably save the situation from anything occurring as fearful as that. If I did not believe it, I should hesitate to say what I shall about conditions.

Europe's Paralyzed Industry

If I were to try to put in two words what I sum up as the most essential thing to grasp about the situation in Europe, the two words would be "paralyzed industry". There is idleness, there is a lack of production throughout Europe and, indeed, in England, that you can hardly comprehend. There is a difficulty about a resumption of work on ordinary peace affairs that, I think, nobody could be made to comprehend who did not see it on the ground.

Now, of course, there is a great scar across Europe where there has been devastation. I hardly need to speak of that. You have been told that story. I have seen it from the German border to Zeebrugge, and no words can make you comprehend the awfulness of the scar. The complete destruction, the insane destruction, the destruction that went far beyond military necessity, destruction that destroyed factories for the purpose of destroying commercial competition—there was a great deal of that. But after all that is only a scar across Northern France and Belgium, destroying a considerable part of the industry of those two countries, it is true, but it is not that devastated district that I speak of. It is the idleness throughout all countries where there has been nothing of the hand of war laid upon industry, only the hurt of this after-war situation that has in it promise of being a more terrible hurt than the war itself. Now, why should a factory unharmed by war in the midst of a continent wanting everything insistently be idle? Why should there be a million people in England receiving an unemployment dole? Why should there be in little Belgium 800,000 people receiving a weekly unemployment wage?

How Can Raw Materials be Paid For? Let me try to give you some picture of the difficulties that a manufacturer is under in Europe today in an attempt to start up his factory. In the first place, his labor has been dissipated and he faces a very difficult labor situation, although he is surrounded by idleness. The war has had a bad effect upon the morale of people. That is particularly noticeable in Belgium, where for four and one-half years there has been partial idleness of people supported from the public purse, which has had a serious effect upon the character, for the moment at least, of those people. But our manufacturer must have raw material. Probably it must come from out of that country. He must have exchange with which to pay for it. He must have credit, very likely. Now I have come to see these nations from a new point of view of what they must have from outside to sustain life and go on in a more normal course.

And what do they have with which to pay for it?

Let me picture a pair of balances, into one scale-pan of which you will put all the things that a nation must have—in Italy, coal and cotton; in France, cotton and wool and most of the metals. Let us put in the other pan everything that a nation has to export. Well, obviously at the moment, these nations wanting everything—industry disorganized, and nothing to send out—our scales are out of balance. What can be done? We cannot take anything out of the pan containing the nation's necessities, because presumably we have reduced these imports as low as they can go and have the nation live. Put more in the other pan, representing the nation's exports? But you cannot put more in if your industries are paralyzed. What other way is there to balance this? And it must be balanced, else the things cannot be had that are essential to the nation's life. Well, normally we would put gold in there, but, of course, now there is no gold that these countries can spare. What else can we put in? Credit—that is the one thing. There are just three things that will go into this balance to balance these necessary things that the nation must have—goods, gold, credit. So right on the threshold a manufacturer needs a foreign credit. He must have foreign credit if his raw material is to come from abroad. Now, what are some of the other things that are difficult. He is facing a wage situation in which the wages of pre-war days have been doubled or tripled. He is in a currency situation that is chaotic. Some of these nations have a variety of currency at the present time that is almost laughable, except that it is horribly serious.

Poland's Currency Troubles

Take the situation of Poland, for example, and Poland was a great manufacturing district about Warsaw. When the present Government was formed, this country, made out of a piece of Russia, a piece of Germany, and a piece of Austria, had first a currency of the old Czar rubles, of the Kerensky rubles, of the Bolshevik rubles, and counterfeits of the Czar rubles and the Kerensky rubles. Then there were German marks, and an issue of marks that Germany forced the Warsaw district to make, and then, worth least of all, perhaps, were the Austrian crowns with three-eighths of one per cent of gold back of them. That Government had to consolidate in some way this terrific mass of currency, and the difficulties that this has thrown upon getting things started would in themselves be almost enough to bring about the paralysis that is found there.

Money Difficulties in England, France and Belgium.

The currency in other countries, while not quite so intricate, is almost equally involved. In France there were a little less than 6,000,000,000 bank notes which formed the nation's currency prior to the war. Today there are 36,000,000,000 francs of notes of the Bank of France. Now 36,000,000,000 francs of paper money is a sum so vast that you can hardly grasp it. Its effect has been greatly to enhance prices. England itself has an enormous issue of what is practically fiat money—about a billion and a half dollars, I believe it is. These currency notes are secured by a comparatively small amount of gold—about 28,000,000 pounds sterling. In Belgium the Germans forced a bank to make a great issue of notes. It flooded the country with marks, and when the Belgian Government came back they had to take those marks up. They had to issue their own notes, or, in part, bonds against the marks. About 6,000,000,000 marks were so taken up. When France got Alsace-Lorraine she also got about 4,000,000,000 marks along with it, and had to redeem them. It cost France a billion dollars in her bank-note currency which she put out at 1.25 for the mark in a franc. So the currency situation makes a great difficulty.

Thousands Literally Starving

Then there is another paralysis that affects every manufacturer, that affects the whole life of Europe more than you can imagine—the paralysis of domestic railway transportation. In some parts of Europe that has become extremely serious. Mr. Hoover told me that the breakdown in transportation in Central Europe, in the countries east of Germany, was so serious that there was bound to be starvation of hundreds of thousands of people simply because the food could not be moved. If ports were full of food there would still be many, many thousands of people starving. Starving people! Do you know they really starve to death by hundreds of thousands? It is a long way off. We don't get it. We don't understand it. It is a sort of oratorical expression—that people are starving. But it's true, only too literally and terribly true!

In Austria, in Czechoslovakia, in much of the Balkan country, the starvation has been appalling, and will continue to be appalling, and people will face a year from now a food situation worse than they have faced this spring, and I say that on the highest possible authority. Why is that? Because Russia has ceased to be a producer for export, because Rumania, who had sent a hundred million bushels of grain into Europe had been swept clean of her work cattle—was without seed, and could plant only a part of her fields, and her Premier told me that this year she would not raise anything for export. All they hoped for was to raise what would feed their own people. This sweeping away of work cattle, of work horses is very serious. Think! Why, I have seen in Belgium men hitched to a drag starting off across long fields, two men pulling an ordinary drag that a horse would draw. I have seen rows of men and women spading their great fields because they did not have the animals to do the plowing. Mr. Paderewski told me that in Poland,

because of lack of work animals, because of lack of seed, not over one-third of the acreage could be planted this year. So you have that combination of lack of production and of a paralysis of transportation and even though there were a sufficient amount of food at the ports it could not be moved to the people.

The Lack of a Market That Can Pay

I was telling you something of the difficulties of the manufacturer. This difficulty of transportation is an extremely real one. It affects the manufacturer in getting his raw material, the lack of which prevents him from sending his finished products. But what about the market for his finished products? There is the rub. The markets of Europe are ravenous for things, and they have nothing with which to pay. The manufacturer starting with a disorganized labor situation, a wage-scale three times the pre-war scale, a demoralized morale, great difficulty in getting foreign exchange to pay for his raw materials, great difficulty in getting bottoms to ship them in, great difficulty in getting them transported to him after they arrive at a port, may still produce. But after he produces he has not a market that can pay, a market that will give him the means to go on completing the industrial cycle of buying more raw material and paying his labor.

That is serious almost beyond our understanding because we have not realized, at least I had not realized, how like a great manufacturing community Europe is. Europe has increased its population since the Napoleonic wars from 175,000,000 to 440,000,000. Just think of those figures—175,000,000 to 440,000,000! Europe did not become any more productive. She probably does not raise a very great amount of food more than she did one hundred years ago. How has she fed these people? You can just compare Europe to a New England mill town. If there were no market for the product of the mills of that town, if you could not sell, what would happen? You could not continue the industrial processes, your people could not earn the wages that they must pay to bring food into the town, and they would go hungry or they would go out. A responsible minister of the British Government said to me: "If you can't get the industries of Europe started so that Europe in turn can make an effective demand upon the industries of England, the British Government will have to get five or six million Englishmen out of England and nearer to the sources of food supply."

It is this that we must grasp—that these industries must be kept going in these highly industrialized European countries if the people are to live. Take England, the most thickly populated country in the world, with seven hundred people to the square mile. They have built up that whole island into an industrial community that can live only by selling abroad a great part of the products of the factory and, with the proceeds of that export, buying more raw material and the food for the population.

England Threatened With Revolution

Let me tell you a little more about England—England as I see it. The England that I saw on the first of February was an England on the very verge of revolution. You didn't get that over here, but it is a fact generally admitted by all Englishmen. When I arrived in London—I think it was the second of February—the streets were full of army lorries trying to carry the people because there were strikes on the district railway and in the "tube." Coal miners were threatening an immediate strike and the supply of coal was so scarce that living there was most uncomfortable. Up in Glasgow there were such riots that they had sent military tanks to patrol the streets. The railroad men were threatening a complete tie-up of all transportation service. The electricians were threatening to put London in absolute darkness and we were all provided with candles throughout the evening, expecting the light to be cut off at any moment. Happily there has been a great change in that situation. The great underlying common sense of the English came to the rescue and differences were partly composed. The coal miners demanded, and received, a Royal Commission that should within a few days examine their claim for higher wages and shorter hours, and that examination did not leave a doubt in a mind in England that the miners had made out a case. The railroad workers were composed with the railroad people, and for the moment the outlook is peaceful so far as any revolution is concerned.

A Million Houses for British Workingmen

But I should like to examine for you a little further, the English situation. England has held the premier position in the international industrial markets. America grew, but England grew, too. America grew faster, so did Germany grow faster, but England had up to the outbreak of the war held the premier position. How did she hold it? She had little raw material, some iron and some coal. That was all. I will tell you how she held it. She held it by underpaying labor. That was her differential. That is how she competed. She underpaid labor until that labor today has not a house over its head in England, and the Government is undertaking to build a million houses for workingmen. A million houses! English industry made a red ink overdraft on the future by underpaying labor so that it did not receive enough to live efficiently, and you know, if you have been in the mill towns of England, that there grew up a secondary race there of small, under-fed, under-educated, under-developed people. Well, England must pay the overdraft now. She found that a third of her men of military age were unfit for military service. One of Lloyd George's most famous utterances was that "you can't make an A-1 nation out of a C-3 population." They all see it, and that differential that England has had in international trade is gone.

But that is not all. England must maintain her markets if she is to maintain her population. Remember,

she is an industrial community just like an industrial village. She has this vast population that her fields will not sustain. She must bring in raw material, pass it through her factories, sell the product abroad, and have margin enough to get more raw material and the food she needs, and she is facing the demoralized markets of Europe. I believe that these markets must be rebuilt. I believe that is the real peace treaty now. There cannot be peace when there are idle people, lack of production, want and starvation; and these are things that are current in Europe.

England's Paper Money and Heavy War Costs

I have told you a little of English industry. Let me tell you just a word of English finance. The outstanding fact in England is that she is off the gold basis. Very great consequences flow from that. You know that the day after war was declared, she began to print paper money. The Bank of England had a rigidity that permitted of no expansion. Gold disappeared from circulation overnight. There was urgent need for more currency, and the Government started its printing press. It has added to the total of its fiat issue every week during the war, I think, and is still adding. That issue is secured by a deposit of a little gold, perhaps twenty-eight and a half million pounds of gold under it. That amount has remained stationary, and there are government securities also back of this currency issue. But, of course, that is "pig on pork" as we say—that is, merely securing the Government's obligation, with the government's obligation, and in the present situation practically any Bank of England note is not redeemable. Normally they are redeemable in gold. But neither the Bank of England nor the Government has the gold to redeem any great quantity; and if anybody wanted to ask for a redemption they would be closely questioned as to the use they wanted to make of the gold. The difficulty of making any use of gold in a country which puts an embargo on its export is such that the redemption quality has now disappeared.

The English fiscal year begins with the first of April. From the first of April to the armistice, England's war cost was 7.2 million pounds a day, roundly. It was a little under that in the months since the armistice her war cost has been 6.1 million pounds a day. Why, the cost of this war after the armistice is going to amaze the world!

France on the Verge of Exhaustion

Now let me turn to France for a moment. France is bled white. That is a trite statement, but it is a statement that comes to you with crushing force when you really see France; when you see today women in the railway yards, women on the street cars, women at many things that men should be doing. When you see men well along in the forties still in uniform, you begin to appreciate what has happened in the way of loss of manpower. Of course, in Northern France you do not expect to find anything but devastation and idleness. But there is idleness all over France just as you find it in England, just as you find it in Belgium, just as you find it in Italy.

French Finances

In France, the paper money is the issue of the Bank of France—a bank that has been wonderfully well managed, that has gone through all the wars that have been fought since its organization, without any question of insolvency. But the amount of currency issued by the great Bank of France reaches an appalling figure. The total at the outbreak of the war was between five and six billions of francs. A total of thirty-six billions had been reached when I was in Paris, and the Chamber of Deputies had asked to increase the legal limit to forty. Now thirty-six billions of francs is a vast amount. We have grown used to handling this word "billion," perhaps, without understanding it. I think, perhaps, the French mind is less capable of understanding these great figures than the minds of some other peoples. The Frenchman is wonderful at detail. He is, nationally speaking, a man of small business, and I rather conceive that numerals in nine ciphers get beyond his range.

When I first went to Paris, in the middle of February, there was a situation that seemed to me to raise at once a question of the solvency of the French Government. It is facing a budget of twenty-two billion francs this year. France had a debt, prior to the war, that was larger than that of most countries. It was about \$160 per capita. Her funded debt today by no means measures her position. The Government owes the Bank of France twenty-two billion francs of short-term unfunded paper. They are pledged to tremendous payments to the families of the injured, payments of reparation to the people who have had their homes or business destroyed. It was estimated to me by, I believe, competent persons, that when the Government of France has discharged her obligations to her own people, she will have a total obligation of three hundred billion francs.

Italy's Tragic Situation

Here is Italy with its great army not disbanded, and she cannot disband it without disbanding it into idleness, and she is afraid of idleness. Poor Italy! You know I am pro-Italian since I spent three weeks in Italy. I had some conceptions about Italy, reinforced by current conversations in England and in France and elsewhere—that Italy came into the war when she got her price; that the greatest thing she had accomplished was a phenomenal defeat, and that when the war was over she wanted to claim the credit and grab all the "swag" that she could. Well, that view is not correct. When Italy came into the war she came to the side that at the time certainly did not look as if it had the best chance. She did as brilliant fighting in those high places as men ever did in the world. By treachery, through surprise, she suffered a horrible defeat. Her heart was torn open, and she came back and put the enemy back. She defended a line as long as the line across France. She

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lost as many men in proportion to her population as England lost, and she has buried herself under a crushing debt. My sympathy is with Italy.

An Instance of Italian Patriotism

I believe you may be interested in an Italian story. A good many nations and a good many military organizations think that they won the war. Well, I can tell you of one man, just one man, who, if he did not win the war, saved the Allies from defeat, and that man was an Italian, a great manufacturer at Genoa. His father had been a great manufacturer before him, and he had been filled with the idea that he would resist German penetration, that no German money should ever get control in that factory, and his two sons inherited that feeling and were absolutely free from any German taint. When the war broke out they offered to turn their great shops into munition works to make guns. They think there was still German influence in the Italian Government, but whether or not there was, they got no orders. That did not phase them. They got the designs of French guns and they made two thousand cannon—two thousand splendid field pieces—and when that terrible defeat came to Italy and the Italian Government hastened to them to ask them to make guns they had two thousand ready at once to put into the field. But still they had difficulty in getting further orders. At last they got orders, but they could not get paid. At one time, the Italian Government owed this sinner corporation 700,000,000 lire.

The firm employed 100,000 men. They made 10,000 field guns. There may be some men here who have tried to make guns for our army, and how ever desperately they tried they did not, in the months between the declaration of war and the finish of the war, get very many of them over there, and they will appreciate what making 10,000 guns means. That is what this one concern did. They financed the situation in spite of not being able to get paid. I believe that just those two men who ran that concern, who had such patriotism, such foresight, such enormous financial strength, such great industrial ability as to produce these things, saved Italy from defeat, and an Italian defeat would have been very serious to the Allied cause. And now Italy, under this tremendous debt, has to have a million tons of coal a month, has to have its cotton, has to have everything. This balance of necessities is weighted way down and the balance of its exports is high in the air. They have little to put in. Their situation is very serious.

Bolshevism in Spain

I saw something of the neutral countries, too. I was in Spain. Spain has been unharmed, has prospered as she never prospered before, and but for a terrible cancer in her heart would be the most promising place in Europe. That cancer is the labor situation. There was presented at Barcelona as perfect a laboratory of Bolshevism as you ever saw. An organization that was the most mysterious, the most terrifying of any organization that I ever encountered. It takes in the whole labor population there. It is secret to the extent that the mem-

bers themselves do not know who guides it. It calls general strikes merely for gymnastic exercises. It rules by assassination. At the time I was there seventy-two employers and foremen had within a few weeks been assassinated—and not one conviction. No witnesses would testify. They were terrified. No juries would convict; they were terrified. They had terrified the papers. They had told the papers "you can't publish anything that we do not censor." They censored one paper for publishing an official order of the Government, fined it 5000 pesetas, and told the owners they would destroy the presses if they did not pay. They did pay, but the censorship became so absurd that every paper there stopped publication. Now there was Bolshevism in the making aided by Russian money, aided by German men. There is no question about it whatever.

Counterfeit Money

This use of Russian money brings up an interesting subject. I do not know how much you have seen of it in the papers here, but the best bureau of engraving and printing, the best money factory in the world, next to the Bureau of Printing and Engraving in Washington, was located in Petrograd. The theory of the Bolsheviks was that in their order of society there was no place for money. They saw it was difficult, however, to go on without money, and so they set to work to print so much money as to make money useless. They went further than that. They wanted money for their propaganda purposes in other countries. They found no way so easy as to make it. They have counterfeited the pound, the franc, the mark, the lira, the peseta. To what extent, I am unable to say. That it has been done there is no question. Some of the English counterfeiters have found their way to England. A good many of the English counterfeiters were used in the Near East, because they liked the pounds better there than rubles, and so the Bolsheviks supplied the pound.

Industry Must Be Restarted

Regarding Russia, the picture I see is a Russia exploited by Germany, with no one to hinder, because the Russian leaders have been driven from the country or exterminated there. That opens an interesting prospect of the future of Europe. Of course Germany will be hampered by every possible means that can be laid upon her. Nothing is too severe, if it could be wreaked upon the people who deserve punishment. I doubt if all the German people do deserve the punishment. I believe it was a small minority that led Germany into this war. I have been tremendously impressed with the power of minorities. Those are two examples, but you find examples everywhere, of what an active minority, capable of handling propaganda, can do, matched against the phlegmatic majority that does not band together and does not try to present a case.

And so there is, in every country in Europe, a small minority today that actually questions the justice and right of the present capitalist order. There is no doubt that it wielded an influence out of all proportion to its

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